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FEDERAL COMMUNICATIONS COMMISSION
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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Simplification of the Depreciation Prescription Process	)	CC Docket No. 92-296

REPLY COMMENTS OF THE CALIFORNIA CABLE TELEVISION ASSOCIATION

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REPLY COMMENTS OF THE CALIFORNIA CABLE TELEVISION ASSOCIATION

The California Cable Television Association ("CCTA") hereby submits its reply to comments filed in response to the FCC's Order Inviting Comments[1/] on selected accounts and the proposed projection life and future net salvage ranges to implement the FCC's simplification of the depreciation prescription process adopted last September.[2/] That Order adopted the Basic Factor Range approach, and rejected three other proposed approaches. CCTA had filed comments in this docket calling for rejection of all of the FCC's original options.[3/] Of the four options before the FCC, however, the one the FCC chose is the least harmful to

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1/ Simplification of the Depreciation Prescription Process, Order Inviting Comments, CC Docket No. 92-296, FCC 93-492 (rel. Nov. 12, 1993) ("OIC").

2/ Simplification of the Depreciation Prescription Process, Report and Order, CC Docket No. 92-296, FCC 93-452, (rel. Oct. 20, 1993) (Order).

3/ See Comments of the California Cable Television Association, CC Docket No. 92-296 (filed March 10, 1993).

the public interest in accurate computation of LEC depreciation expense, but only it is if implemented with care.

The FCC Should Implement Simplification in Stages

In their initial comments, USTA and the local exchange carriers (LECs) argue that the FCC should establish ranges for all accounts, especially certain accounts they claim are significant that were omitted from the Commission's initial list.[4/] The FCC clearly stated in its Order, however, that "the new, streamlined procedures should be implemented in phases, beginning with the accounts most readily adaptable to the range approach."[5/]

The Commission correctly did not intend to implement its new approach on a full scale basis. The LECs seek full application of the new procedures to accounts that will affect twenty-five percent of their operating expenses. No amount of expediency justifies instant replacement of the current methodology of quantifying, on a company-by-company basis, the LECs' largest expense factor.

4/ See e.g., Comments of the United States Telephone Association, CC Docket No. 92-296, at 9-10 ("USTA Comments"); Comments of NYNEX Corporation, CC Docket No. 92-296, at 2-3; Comments of U S West, Inc., CC Docket No. 92-296, at 2.

5/ OIC at ¶ 3.

Although the Commission intends to simplify the depreciation prescription process, it should not do so in a rushed, haphazard manner at the expense of telecommunications consumers. The Commission has required the volume of data and detailed analyses that it has in the depreciation area for a good reason: all the basic factors that comprise the variables for the depreciation formula are the product of "estimates," and therefore should be thoroughly analyzed prior to a determination as to their quantification for the result to be accurate. The FCC should recall that CCTA's comments showed variances of up to 2,000 percent in some LEC accounts. Given the impact depreciation has on each telephone company and, ultimately, on each telephone ratepayer, the FCC should exercise extreme caution as it begins to modify the depreciation process.

The Commission should reject arguments that it should make any immediate changes to the process that it so recently adopted, after long study. The fact that some LECs will not be able to initially participate in the streamlined methodology does not justify application of the Basic Factor Range option on a full scale basis. The Commission has expressly stated that it does not have the resources to resolve all remaining technical problems so as to be able to apply the ranges for all accounts in 1994. The negative consequences of inadequate quantification far outweigh any LEC's preference for expediency.

The FCC Should Reject LEC Efforts To Force Broadening of Basic Factor Ranges

USTA and the LECs argue that the Commission should broaden its ranges to include all of the existing data points so as to extend the substantive benefits of simplification. This is an attempt to go far beyond the point where the FCC arrived after careful study last September.

Of the four depreciation simplification options originally proposed by the Commission, the Basic Factor Range option is the most acceptable because it at least attempts to assure the most accurate results by continuing to recognize an individual carrier's accumulated depreciation reserve in setting rates. The drawbacks to this option, however, justify the Commission's careful implementation. Factors that are currently evaluated on an individual company basis for each individual plant account will now be "averaged" using industry-wide data on basic factors. Before the Commission expands the basic factor ranges it now proposes, it must determine whether or not the ranges it tests here will produce basic factors even reasonably representative of those currently determined to be valid barometers of a plant account's projection life, salvage and survivor curve.

Not only are the LEC commenters seeking immediate implementation to all of their accounts, but they also seek to expand the ranges. Any further expansion of the ranges would render them virtually useless. The Commission certainly anticipated that some carriers would fall outside of its one standard deviation range. Indeed, the FCC provided these affected carriers the option of not using the basic factors. Other carriers, however, will benefit from the simplified process. In light of the Commission's limited resources and the adoption of an entirely new methodology for one of the LEC's largest operating expenses, the Commission should thwart any attempts by the LECs to increase their opportunities for manipulation of depreciation rates.

The FCC Should Reject LEC Efforts to Mix Depreciation Policies And Infrastructure Development

In the Depreciation Simplification Order, the Commission, based on its own past experiences, expressly rejected the LECs' argument that higher depreciation rates have encouraged infrastructure investment.[6] The Commission, in rejecting the Price Cap Carrier option, was also not persuaded by the LECs' argument that this option is necessary for them to compete in the interexchange market.[7] Yet the LEC commenters continue to attempt to merge two mutually exclusive goals: modernizing the communications infrastructure and timely recovery of capital expenditures through depreciation.

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[6] Order at ¶ 52.

[7] Id. at ¶ 54.

In their comments, USTA and several LECs maintain their claims that the Commission's proposed rates do not reflect today's marketplace and depreciation realities. They claim that it is no longer valid for regulators to focus on the actual rate of plan retirement as a surrogate for service value when there is rapid technological change and increased pressure of competition.[8] They have, however, not provided, and cannot provide, any evidence that establishes a nexus between depreciation and investment.

CCTA in its original comments provided the Commission with a host of empirical evidence that demonstrated that there is no consistent linkage between increased depreciation and increased investment in the telephone network. In addition to CCTA's study, the Commission noted that in its own experience, increased depreciation rates do not lead to increased infrastructure development. Since the Commission has not subsequently adopted rules requiring that additional revenue flowing from increases in depreciation expense actually be spent on infrastructure development, it is highly unlikely that there will be such a nexus between depreciation and infrastructure enhancement in the future.

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[8] See, e.g., USTA Comments at 4, Comments of BellSouth Telecommunications, Inc., CC Docket No. 92-296, at 6-9.

The FCC Should Reject Reduced Life Ranges In The Copper Wire Accounts

Specifically, the LEC commenters seek a lower projected life range, from 25-30 years to 15-20 years, for metallic cable accounts, such as copper wire, which USTA calls an "increasingly disfavored technology" because of the emergence of optional fiber."[9/] As an initial matter, neither USTA nor the LECs have demonstrated that this equipment is obsolete in any existing or proposed telecommunications services. They have cited instead to the rapidly changing marketplace and increasing competition as grounds for lowering the depreciation range for their copper plant. But the only service for which any replacement of copper by fiber is even arguably necessary is video. And even as to video, demonstrations of video delivery over copper lines using Asymmetrical Digital Subscriber Line (ADSL) have been made that could prove commercially successful.

The California Public Utilities Commission has recently issued, after extensive study, a report that strongly underlines that the existing copper wire plant is fully satisfactory for all other existing voice and data telecommunications uses, and can be upgraded through digitization for additional uses.[10/] Essentially, the LECs want the telephone ratepayers to subsidize

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9/ USTA Comments at 7.

10/ Enhancing California's Competitive Strength: A Strategy For Telecommunciations Infrastructure (November 1993) at 30-32.

unnecessarily their entry into the video market. The California PUC did not find this adequate grounds to support a government policy to promote "widespread or ubiquitous deployment of broadband capabilities."[11]

It is not justifiable for the LECs to rapidly write off and replace their entire copper wire plant simply to provide video services. Instead of showing that the copper equipment is obsolete and thereby requires a lower depreciation range, the LECs and USTA simply argue that they want to install fiber to replace their copper wired plant.

The LECs' request for a shorter depreciation range for their copper wire plant is based solely on their desire to enter the cable market. If the LECs want to enter the video services market to compete with cable, then their shareholders, the ones who would reap any resulting benefits, should finance it, not the ratepayers. The Commission's mandate and goal is to "accurately

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[11] Id. at 32.

reflect the actual rate of plant retirement,"[12] not to finance LEC business ventures into other markets.

Respectfully Submitted,

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January 21, 1994

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[12] Order at ¶56.

CERTIFICATE OF SERVICE

I, Kecia Boney, do hereby certify that a copy of the foregoing Reply Comments of The California Cable Television Association was served on the following by either hand delivery or first class mail, postage pre-paid, this 21st day of January, 1994.

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